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May 31, 2007

ORIGINAL

Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

FILED/ACCEPTED

JUN - 4 2007

Federal Communications Commission  
Office of the Secretary

Re: *Ex Parte Communication*  
WC Docket No. 05-337  
Iowa Telecom Petition for Forbearance Under  
47 U.S.C. 160(c) from the Universal Service  
High-Cost Loop Support Mechanisms

Dear Ms. Dortch:

Mediacom Communications and its telephone subsidiary, MCC Telephony, write to oppose the above-referenced forbearance petition submitted by Iowa Telecom. At a time when the pressure on the Universal Service Fund is serious enough for the Joint Board to recommend placing a state-by-state cap on the fund, Iowa Telecom comes before this Commission with a petition which amounts to a request for a stunning *additional* \$22 million grant. Naturally a request of this magnitude should require serious scrutiny and a compelling justification by Iowa Telecom.

We mention at the outset that a forbearance petition is not the appropriate vehicle for the type of relief that Iowa Telecom seeks. As mentioned by other commenters<sup>1</sup>, Iowa Telecom is not asking that the Commission forbear from applying a certain rule, but rather that the Commission substitute the application of one rule for another. Leaving aside concerns regarding the propriety of asking to benefit from a rule that is under consideration but has not yet been adopted, thus requiring this Commission to prejudge a pending rulemaking, Mediacom urges the Commission to weigh this request within the context of Iowa Telecom's behavior in its home markets.

We encourage the Commission to consider our experiences in the local market with Iowa Telecom and the interplay between Iowa Telecom's actions in its markets and the above-referenced petition. We believe a unique \$22 million windfall for Iowa Telecom is unwarranted in law and fact, would harm competition, would needlessly cost the consumers who ultimately foot the bill for the Universal Service Fund, and would send the wrong message to a company that has repeatedly used delaying tactics to keep fair competition at bay.

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<sup>1</sup> See comments of The National Association of State Utility Consumer Advocates.

The federal Universal Service Fund serves the laudable goal of encouraging the provision of a basic set of services, including the competitive provision of such services, to areas underserved due to the high per customer cost or other unique difficulties in providing services. As the Iowa Utilities Board noted in its Comments,<sup>2</sup> support from the fund “should be based on the characteristics of the exchange, not the carrier.” Put another way, the purpose of the fund is to benefit underserved consumers, not enrich any particular carrier or class of carriers.

It is in this context that the Commission must apply its forbearance criteria. As Iowa Telecom notes, those criteria require Iowa Telecom to show that enforcement of the current mechanism (1) is not necessary to ensure just, reasonable and non-discriminatory charges or practices; (2) is not necessary to protect consumers; and (3) is not “consistent with the public interest.”<sup>3</sup> Mediacom believes the public interest is best served when the size of the USF is carefully managed, since the public ultimately pays those costs. The public interest is also best served when fair and robust competition exists on a level playing field.

From our vantage point as a new entrant trying to enter Iowa Telecom’s markets, Iowa Telecom does not meet these criteria. Most important, giving Iowa Telecom the requested windfall is not “consistent with the public interest.” A look at Iowa Telecom’s own arguments, and how those compare to the “facts on the ground,” demonstrates why Mediacom objects. Specifically, Mediacom calls the Commission’s attention to Iowa Telecom’s unsupported contention that it needs forbearance to modernize its network without sacrificing “affordable rates,” and that it is a “unique” carrier which rightfully deserves to be treated like a non-rural carrier. Finally, Mediacom will discuss Iowa Telecom’s market behavior in Iowa and Mediacom’s concerns that the \$22 million windfall would simply be used to fund further efforts to deter and delay competition in Iowa.

Iowa Telecom argues that its predecessor, GTE, made little network investment, and that Iowa Telecom must now have increased USF support to provide services – it specifically mentions broadband deployment – without raising its rates.<sup>4</sup> This argument is problematic for several reasons. Iowa Telecom’s focus on broadband and advanced services is misplaced because those services, while desirable, are not presently among the mandatory supported services required and subsidized under the USF program. Further, Iowa Telecom never discusses in detail where or how it would use this influx of support to provide broadband, or even to demonstrate that there are significant underserved segments of Iowa Telecom’s territory. Mediacom has gone to great expense to expand and upgrade its facilities – without federal subsidies -- and offers broadband service through much of Iowa Telecom’s territory. The Iowa Utilities Board’s 2006 High Speed Internet Access Survey found that 918 out of 963 rural communities in Iowa, or 95.3 percent, currently have high speed Internet access.<sup>5</sup> Mediacom has expended over \$300 million in capital funds since 2001 to expand and upgrade system capacity in Iowa, utilizing fiber optic facilities to provide broadband Internet services to all of its Iowa subscribers. In fact, Mediacom made commitments to local franchise authorities to have broadband deployed in 36 months, and in most cases it was able to fulfill that commitment in half the time.

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<sup>2</sup> *Comments of the Iowa Utilities Board*, July 3, 2006 (single page)

<sup>3</sup> *Iowa Telecom Petition for Forbearance Under 47 U.S.C. 160(c) from the Universal Service High-Cost Loop Support Mechanisms*, May 8, 2006, at 1-2 (hereafter “*Iowa Telecom Petition*”).

<sup>4</sup> *Iowa Telecom Petition* at 4-5.

<sup>5</sup> “ASSESSING HIGH-SPEED INTERNET ACCESS IN THE STATE OF IOWA: FIFTH ASSESSMENT,”

Iowa Utilities Board, May 2006, at 4

<sup>6</sup> [http://www.state.ia.us/government/com/util/docs/reports/InternetAccess\\_2006Revised.pdf](http://www.state.ia.us/government/com/util/docs/reports/InternetAccess_2006Revised.pdf)

Further, even if subsidizing the installation of broadband facilities were a legitimate concern of the USF, and even if Iowa were underserved, Iowa Telecom has already been the primary beneficiary of special legislation that provided a state-based subsidy for Iowa Telecom's network development. The "Iowa Broadband Initiative," legislation pushed by Iowa Telecom, was adopted in 2003 and allowed Iowa Telecom for two years to assess an additional \$2 per line, per month for the purpose of funding network improvements to advance broadband services. See 2003 Iowa Acts, ch. 126; 199 Iowa Admin. Code ch. 43.<sup>6</sup>

Another problem with Iowa Telecom's argument is that its putative overpayment for under-maintained GTE properties was its own decision, a financial speculation the risk of which should not now be borne by the USF or the consumers who pay into the fund. In 2002, Iowa Telecom made a similar argument when seeking a rate increase from the Iowa Utilities Board. In rejecting the proposed rate increase, the Board found

When Iowa Telecom purchased the Iowa assets of GTE, it paid a net purchase price that was substantially in excess of the book value of those assets. [footnote omitted]. . . . Iowa Telecom is attempting, with this proposal, to shift the burden of its financial problems from its investors to its customers. . . . It is not reasonable to make a captive market pay for a company's inaccurate forecasting or its decision to take on a particular debt load.<sup>7</sup>

Iowa Telecom no longer appears to be suffering "financial problems,"<sup>8</sup> yet it continues to seek relief from its own decision to purchase highly depreciated assets. In 2002, the Board was concerned that Iowa Telecom sought to shift the results of the decision to captive customers (noting that the proposed increase would not apply in competitive markets). In 2007, the Commission should similarly be concerned that Iowa Telecom wants to use the USF (and the "captive market" of rate-payers who fund it) to cover Iowa Telecom's costs of competing and the continued foreseeable costs of upgrading the facilities it chose to purchase.

Indeed, several recent analyst reports from Raymond James and Stifel Levin<sup>9</sup> suggest that if Iowa Telecom obtains the forbearance it seeks, most of that subsidy will drop to the bottom line, thereby enriching the investment community rather than benefiting Iowa consumers. These analyst reports suggest that Iowa Telecom has little need for this windfall: one suggested that Iowa Telecom is already paying a dividend that yields more than 8%; both analysts were supporting the stock even before considering the forbearance petition.

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<sup>6</sup> The Iowa Broadband Initiative was codified as a new subsection, subsection 12, to Iowa Code section 476.97; in 2005 the Iowa General Assembly repealed subsection 476.97(12).

<sup>7</sup> *In re Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom*, Docket No. RPU-02-4, Final Decision and Order (Iowa Utils. Bd. Dec. 26, 2002) at 20-21. Iowa Telecom appealed this ruling in court, and the Board settled giving Iowa Telecom a smaller rate increase subject to Iowa Telecom filing annual Network Improvement Plans. That state regime continues to this day – Iowa Telecom already has a funding mechanism for network improvements and is supervised by the Iowa Utilities Board in its use of those revenues for modernizing facilities. The windfall Iowa Telecom seeks in this petition would allow it a way to get around the terms of its settlement as its use of these funds would not be subject to Iowa Utilities Board review.

<sup>8</sup> Iowa Telecom continues to pay a dividend of nearly 41-cents per share, and recently reported its Q4 2006 results including a nearly 3% year-over-year increase in quarterly revenues.

<sup>9</sup> <http://ir.iowatelecom.com/phoenix.zhtml?c=182669&p=irol-newsArticle&ID=969616&highlight=>> Iowa Telecom also recently made a multi-million dollar purchase of Maytag's facilities in Newton, Iowa.

<sup>9</sup> See attached analyst research information (Stifel Levin).

We also disagree with Iowa Telecom's argument that its rates are on the cusp of being unaffordable, and that grant of its petition is necessary to remove the prospect of unaffordable rates for Iowa consumers. Iowa Telecom, knowing that the Iowa Utilities Board is responsible for addressing issues concerning local rates, is attempting to play one regulator against another to maximize its own outcomes. More directly, however, there is ample evidence that Iowa Telecom is merely "crying wolf" regarding its rates. Two smaller competitors, Coon Creek Telecom and The Community Agency (TCA), have recently brought complaint cases to the Iowa Utilities Board alleging unfair competitive practices by Iowa Telecom. The facts in those cases are illuminating. In Coon Creek the Board found that Iowa Telecom was offering a "bundled service" for either residential or business for \$9.95, and that this was a lower rate than was being charged by Iowa Telecom at the time the exchanges in question were deregulated, and a lower rate than Coon Creek was charging at the time of the complaint.<sup>10</sup> In the TCA case the evidence was even more dramatic: the Iowa Telecom bundle was just \$5.95, while in nearby regulated exchanges Iowa Telecom was charging a residential rate of nearly \$19.<sup>11</sup> In both cases, Iowa Telecom argued and the Board found that the bundles were priced above cost and provided incremental benefits to Iowa Telecom's revenues. In other words, Iowa Telecom was still making a profit having decreased rates since prior state deregulation, and despite pricing below competitors in its markets – and presumably is making extraordinary profits where it is pricing at \$19 for residential service offered to a captive market. Iowa Telecom is in no position to argue its rates may become "unaffordable" when it appears to be following a strategy of using rates reflecting monopoly rents in certain markets to cross-subsidize lower (but still profitable) rates in other markets.

We also are not persuaded by Iowa Telecom's argument is that it is uniquely situated and should be treated, for USF purposes, as a non-rural company. As many of the Comments argued, the USF rules should be evenly applied, and are presently being reviewed on a nationwide basis. There is no reason in a very competitive marketplace why one carrier should be treated differently – to the tune of \$22 million in subsidies – from competing new entrants in the same market. Under the rules in place, Iowa Telecom is a rural carrier. To treat only Iowa Telecom differently makes no sense and violates fundamental fairness. If the rules change, they should change for all carriers at the same time. Nor are we aware that Iowa Telecom has volunteered to relinquish the benefits it enjoys as a rural local exchange carrier pursuant to Section 251(f) of the Communications Act.

Iowa Telecom has, in the past, taken exactly the opposite position regarding its status as a rural carrier: and is selective regarding the circumstances under which it would like to see that status applied to it. When it has been beneficial, Iowa Telecom has embraced its rural designation to the detriment of consumers, competitors, competition, and Commission policy. For example, Iowa Telecom claimed a rural exemption to seek relief from its number portability obligations. In a 2004 Order, the Iowa Utilities Board granted Iowa Telecom a partial suspension of intermodal portability obligations until May 2008.<sup>12</sup> It defies logic that even as Iowa Telecom presently benefits from relief obtained solely on the basis of its rural nature, it seeks additional regulatory benefits by claiming should in fact be treated as a non-rural carrier.

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<sup>10</sup> *Coon Creek Telecommunications Corp. v. Iowa Telecommunications Services, Inc.*, Docket No. FCU-06-42, Final Order (Iowa Utils. Bd. Dec. 11, 2006) at 12-13 (esp. n. 6).

<sup>11</sup> *Community Cable Television Agency of O'Brien County d/b/a The Community Agency and TCA v. Iowa Telecommunications Services*, Docket No. FCU-06-48, Final Decision and Order (Iowa Utils. Bd. Mar. 23, 2007) at 2 n.2.

<sup>12</sup> *In re Iowa Telecommunications Services, Inc.*, Docket No. SPU-04-8, Final Decision and Order (Iowa Utils. Bd. Sept. 17, 2007).

Lastly, the Commission should not lose sight of the bigger picture regarding Iowa Telecom's conduct in Iowa. Iowa Telecom's actions, and the complaints about Iowa Telecom expressed by numerous carriers described above, are all part of a consistent pattern that Mediacom has, unfortunately, witnessed and experienced first-hand in Iowa. Iowa Telecom's actions in the market are contrary to good policy: their positions are inconsistent and guided only by the principle of what benefits Iowa Telecom, and specifically by how they can most distort the competitive playing field to the detriment of competitors and competition (and by extension, consumers). Accordingly, the Commission should be skeptical of Iowa Telecom's claims. MCC Telephony of Iowa has been trying for more than two years to enter Iowa Telecom's local markets. Iowa Telecom has tied MCC up in repeated regulatory and technical delays. Now, long after successfully entering Qwest's local markets, we still have not been able to initiate service in Iowa Telecom's territory. In a complaint case on these delays, the Iowa Utilities Board found Iowa Telecom's behavior to be "obstructionist" and warned of civil penalties for further obstruction.<sup>13</sup> The delaying tactics used by Iowa Telecom included (but were not limited to) refusing to interconnect with MCC's partner, Sprint Communications, in a practice directly refuted by the FCC's recent Time Warner Declaratory Ruling.

Iowa Telecom has routinely forced new and/or smaller entrants to litigate before the Iowa Utilities Board and courts, raising the costs of competitors and forcing delays or concessions that are harmful to competitors and to the competitive landscape in Iowa. Just in the past few years, Sprint, Mediacom, LISCO/LTDS, Coon Creek Telecom, and TCA have felt compelled to file complaints (in the case of Sprint, Mediacom and LTDS, multiple complaints each) alleging anti-competitive acts. Iowa Telecom has also extensively litigated with South Slope Cooperative. In our experience in Iowa, no other LEC has been as obstinate or litigious. Because money is ultimately fungible, we have a legitimate concern that the \$22 million windfall Iowa Telecom seeks will simply free up other funds to allow even more aggressive blocking of competitors, and will fund further litigation. Moreover, as a matter of public policy it simply sends the wrong message to reward a recalcitrant competitor with discretionary special treatment. To the extent that the USF is intended to provide more options to underserved exchanges, the Commission's rules should not be bent to satisfy a company that continues to block competitive options and that causes a lack of competition and new services in its exchanges.

We submit that the public interest weighs against not only rewarding Iowa Telecom's behavior, but also against making those who pay into the USF responsible for the risks Iowa Telecom voluntarily took in buying what it claims are under-maintained facilities. Iowa Telecom's petition does not tell the whole story of the benefits it has already received in Iowa to build its network, the benefits it has received by embracing its rural status, or the lengths it has gone to in deterring competitive entry. The public also has an interest in the stability of the USF. As the Joint Board very recently recommended placing a state-by-state cap on the fund, it hardly makes sense to bend the rules to place an additional significant draw on the fund – one that could result in all other Iowa ETC's suffering a proration of their funds.<sup>14</sup>

Mediacom hopes the Commission will focus on the comments of those without such a pecuniary interest in the proceeding, like the Consumer Advocates and the Iowa Utilities Board, and will take into consideration the experience of those who have dealt with Iowa Telecom "on the ground" like Mediacom and Sprint Nextel. Such a focus compels denial of

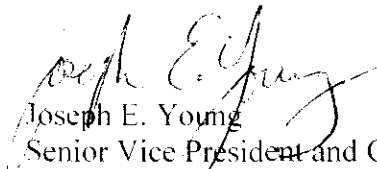
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<sup>13</sup> *Sprint Communications Company L.P. and MCC Telephony of Iowa, Inc. v. Iowa Telecommunications Services, Inc.*, Docket No. FCU-06-49, Final Decision and Order and Order Allocating Costs (Iowa Utils. Bd. Nov. 9, 2006) at 18-19, 21-22. Please see attached.

<sup>14</sup> *In the matter of High-Cost Universal Service Support, In re Federal-State Joint Board on Universal Service*, Dockets WC 05-337, CC 96-45, Recommended Decision (FCC 07J-1, rel. May 1, 2007).

Iowa Telecom's petition. At a minimum, Iowa Telecom should be required to make detailed showings and commitments as to how these funds will be used to directly benefit Iowa customers on a forward-looking basis, and further to show that in addition to using subsidies in underserved areas, it will help encourage service by fully complying with the FCC's recent Time Warner Declaratory order. We would strongly urge the Commission not to merely give Iowa Telecom a blank \$22 million check. Its petition simply cannot satisfy the established statutory forbearance criteria.

Thank you for your consideration.

  
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STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

<p>IN RE:</p> <p>SPRINT COMMUNICATIONS COMPANY L.P. AND MCC TELEPHONY OF IOWA, INC.,</p> <p style="text-align: center;">Complainants,</p> <p style="text-align: center;">v.</p> <p>IOWA TELECOMMUNICATIONS SERVICES, INC., d/b/a IOWA TELECOM,</p> <p style="text-align: center;">Respondent.</p>	<p>DOCKET NO. FCU-06-49</p>
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**FINAL DECISION AND ORDER AND  
ORDER ALLOCATING COSTS**

(Issued November 9, 2006)

**PROCEDURAL HISTORY**

On July 24, 2006, Sprint Communications Company L.P. (Sprint) and MCC Telephony of Iowa, Inc. (MCC), collectively "Complainants," filed with the Utilities Board (Board) a motion to enforce arbitration agreement or, in the alternative, a complaint against Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom (Iowa Telecom). Complainants allege, among other things, that Iowa Telecom is in violation of an arbitration order issued by the Board on March 24, 2006, in Docket Nos. ARB-05-2, ARB-05-5, and ARB-05-6 (Arbitration Order) and has refused to

provide functional interconnection to Sprint, resulting in a refusal to permit the initiation of service to customers by MCC, in violation of Iowa Code § 476.100 (2005).

Sprint alleges that at the beginning of the relevant time period it was a certified local exchange carrier (CLEC); it now operates under an "Order in Lieu of Certificate" authorizing Sprint to provide telecommunications services to wholesale customers. MCC is a certificated CLEC.<sup>1</sup>

Iowa Telecom is an incumbent local exchange carrier as defined in 47 U.S.C. § 251(c) and a local exchange carrier under Iowa Code § 476.96(5).

Complainants allege that Iowa Telecom has refused interconnection and violated various provisions of Iowa Code §§ 476.100 and 476.101 and the Arbitration Order. Complainants requested an expedited procedural schedule and an order immediately enjoining Iowa Telecom from any further delay of MCC's entry into the market or further delay in filling Sprint's orders for interconnection-related services.

On July 28, 2006, the Board issued an order docketing the complaint and establishing an expedited procedural schedule.

On August 3, 2006, Iowa Telecom filed an answer to the motion and complaint.

On August 21, 2006, the Board issued an order revising the procedural schedule in this matter by changing the date of the hearing to September 14 and 15, 2006.

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<sup>1</sup> See In Re: Sprint Communications Company L.P., "Order Canceling Certificate and Issuing Order in Lieu of Certificate," Docket No. SPU-05-21, Certificate No. 0271, issued March 3, 2006.



On September 5, 2006, the Board issued an order denying Complainants' request for preliminary injunction, explaining that it could best provide support to all parties by deciding the merits of the dispute according to the expedited procedural schedule rather than granting the requested relief before hearing the evidence.

A hearing was held on September 14 and 15, 2006. Briefs were filed on September 22, 2006, by Complainants and Iowa Telecom.

On October 3, 2006, the parties filed a joint motion to suspend the procedural schedule for three weeks. The parties agreed to extend the Board's statutory deadline for resolution of this matter to allow the parties time to pursue discussions related to voluntary resolution of the issues in this proceeding.

On October 19, 2006, the Board issued an order granting the joint motion for suspension of procedural schedule and extending the decision deadline in this docket to November 10, 2006.

On October 31, 2006, Complainants filed a statement of supplemental authority that included a copy of a decision issued on October 30, 2006, by the United States District Court for the Western Division of New York, in *Berkshire Telephone Corporation, et al. v. Sprint Communications Company L.P., New York Public Service Commission, et al.*, No. 05-CV-6502.

### **ISSUES AND ANALYSIS**

In its motion to enforce the Board's arbitration agreement, Complainants argue that Sprint, MCC, and Iowa consumers have been and continue to be severely

prejudiced by Iowa Telecom's actions. Complainants claim Iowa Telecom's actions are anti-competitive and are damaging competitors and competition in ways that are irreparable and include refusing to process Sprint's order for interconnection facilities necessary to implement the Sprint-MCC business model to enable MCC to enter the market; insisting that Sprint obtain additional interconnection agreements with other carriers before Iowa Telecom will process Sprint's orders; requiring a separate interconnection agreement with MCC before it will route MCC's traffic via Sprint under the agreement with Sprint; and intentionally delaying implementation of the interconnection agreement with Sprint. Complainants argue that Iowa Telecom is attempting to relitigate the Sprint-MCC business model by making an untimely collateral attack on the Board's Arbitration Order.

Iowa Telecom asserts it has worked with Sprint in good faith to implement the parties' Board-approved interconnection agreement and that the issues on which the parties differ are matters of contractual interpretation relating directly to the agreement. Iowa Telecom states that wireless, toll, and Internet service provider-bound (ISP) calls were expressly excluded from connection under the parties' agreement. Iowa Telecom states that the complaint essentially asks the Board to preempt any operational or legal concerns raised by Iowa Telecom regarding implementation of the Board-approved interconnection agreement. Iowa Telecom emphasizes that the agreement governs the legal relationship between Iowa Telecom and Sprint and that the Board's role in this proceeding should be one of contract interpreter.

Iowa Telecom denies it is in violation of a Board order or any statutory requirement. According to Iowa Telecom, disputes over interpretation of contracts cannot constitute a violation of a Board order or statute and do not form the basis for the Board to issue notice regarding civil penalties under Iowa Code § 476.51. Iowa Telecom asks the Board to find that Sprint cannot demand facilities or act out of compliance with the terms of the interconnection agreement.

The primary issue in this proceeding is whether the Board should order Iowa Telecom to exchange traffic with Sprint for MCC's customers under the Board-approved interconnection agreement between Sprint and Iowa Telecom. Several related secondary issues can be described as Iowa Telecom's reasons for refusing to implement the interconnection agreement at this time. The Board's discussion will focus on the merits and sufficiency of those reasons. If the Board determines that the secondary issues can be resolved in such a way that the interconnection agreement can be effectively used to allow the exchange of traffic between Sprint and Iowa Telecom, it follows that Iowa Telecom should accept that traffic. Four other issues (notice of civil penalties; the validity of Iowa Telecom's bona fide request (BFR) for negotiations with MCC; extending the term of the interconnection agreement; and allocation of costs) will also be addressed in this decision.

1. **Should the Board order Iowa Telecom to exchange traffic with Sprint for MCC's customers under the Board-approved interconnection agreement between Sprint and Iowa Telecom?**
  - a. **Should the Board order Iowa Telecom to process Sprint's ASRs immediately in accordance with the LERG entries provided by Sprint?**

Sprint witness Mr. Lloyd Lantz testified that Iowa Telecom rejected Sprint's Access Service Request (ASR) because, according to Iowa Telecom, Sprint's Local Exchange Routing Guide (LERG) entries designating Iowa Telecom's tandem as the homing tandem were incorrect. (Tr. 102). Iowa Telecom states that it informed Sprint that the LERG entries in the ASR would require Iowa Telecom to perform certain tandem functions (transport, switching, termination) that Iowa Telecom is not obligated to perform. (Iowa Telecom post-hearing brief, p. 6).

Iowa Telecom argues that unless Sprint has direct connections to commercial mobile radio service (CMRS) providers and interexchange carriers (IXCs), the Sprint LERG entries will direct all CMRS providers and IXCs to route traffic bound for NPA/NXXs assigned to Sprint in exchanges in which Iowa Telecom is the incumbent local exchange carrier through Iowa Telecom's tandem switch. (Iowa Telecom post-hearing brief, p. 5). Iowa Telecom states that by the terms of section 19 of the agreement, it is only obligated to the interconnection of local traffic. According to Iowa Telecom, all traffic other than "local traffic" is outside the terms of the agreement and the agreement provides neither rights nor liabilities to either party except as it relates to local traffic. Iowa Telecom also points to section 20.3 of the agreement,

which states that "Sprint will not transport ISP bound, CMRS or toll traffic using the Interconnection Facilities established pursuant to this Agreement."

Iowa Telecom argues that even where Sprint proposes to direct connect to CMRS providers, there will be residual wireless traffic from carriers with whom Sprint has not direct connected. Iowa Telecom states that leaving the local field blank in Sprint's LERG entry will cause traffic that includes wireless that is not direct connected to default route to the Iowa Telecom tandems. (Tr. 329). Iowa Telecom states that arrangements between the parties will need to be made regarding compensation for this traffic. (Iowa Telecom post-hearing brief, p. 8).

Sprint lists the Iowa Telecom tandem in the "toll" field in the LERG entries for the Sprint NPA-NNXs in each exchange area. According to Sprint, this practice is consistent with an industry practice in which the ILEC tandem is used in routing to the specific exchange area; there are no viable alternative tandem providers for Iowa Telecom's territory; and it is not possible to leave the toll field blank, as doing so would cause toll calls destined for MCC customers to be dropped. (Complainants' post-hearing brief, pp. 20-21; Tr. 103).

Sprint intends to leave the "local" field of the LERG blank and not populate it with Iowa Telecom's tandem designation. Because Iowa Telecom insists that it is not required to transit local traffic to other carriers subtending Iowa Telecom's tandems, Sprint has attempted to resolve this issue by agreeing to connect directly with each wireless carrier subtending an Iowa Telecom tandem. (Complainants' post-hearing brief, pp. 21-22; Tr. 173-74).

Sprint also testified it has made corrections to erroneous local LERG entries brought to its attention at hearing. (Tr. 243). Sprint shows the corrections in Attachment 2 to its brief, which is a copy of the LERG entry screens in the Business Integrated Routing/Rating Database System (BIRRDs) for each of Iowa Telecom's four tandems. They show no local tandem entry. (Complainants' post-hearing brief, p. 22).

The Board finds that Sprint's proposals are reasonable steps to address Iowa Telecom's concerns about CMRS and toll traffic. Sprint indicates it will obtain trunking for both toll and local traffic to each tandem switch. Sprint has also proposed to direct connect to all CMRS providers operating in each tandem's switch exchange area. Sprint's offer to direct connect and incur these added expenses appears to the Board to be an effective proposal to resolve the LERG dispute. Further, the Board finds that, based on the record in this proceeding, it does not appear that Sprint has a viable alternative to using the Iowa Telecom tandems.

The Board notes Iowa Telecom's concern about compensation for residual CMRS traffic, but concludes this issue can be resolved if and when such residual traffic actually occurs, can be measured, and becomes a problem. The concern about potential residual traffic does not invalidate the LERG entries and must not delay acceptance of Sprint's ASR.

The Board will order Iowa Telecom to process Sprint's ASRs immediately in accordance with the LERG entries provided by Sprint showing the Iowa Telecom tandems in the toll entry field and leaving the local field blank.

**b. Should the Board order Iowa Telecom to process Sprint's order for an interconnection facility?**

Complainants state that Iowa Telecom refuses to process Sprint's order for an interconnection facility based on a claim that the location of the physical point of interconnection (POI) is in dispute. Complainants argue there is no dispute over the POI, but Iowa Telecom confuses the manner in which the physical interconnection between the parties' networks is established (the "physical POI") and the manner in which costs associated with that interconnection facility are apportioned under the agreed meet point arrangement (the "financial POI"). (Complainants' post-hearing brief, p. 22).

The dispute between parties on the POI concerns whether section 18 of the agreement allows for a physical POI distinct from a financial POI. Sprint did not request a POI at the Iowa Telecom switch location but seeks an agreement where the parties will establish a meet point interconnection arrangement at the exchange boundary for each exchange where Iowa Telecom has a tandem switch located. (Complainants' post-hearing brief, p. 24). The parties agree that section 18.1 allows Sprint to choose the exchange boundary as a meet point. (Tr. 217-19).

Section 18.1 of the agreement provides that the parties will establish a meet point interconnection arrangement at the exchange boundary for each exchange where Iowa Telecom has a tandem switch located. Section 18.3 recognizes that the facilities may be provisioned in a number of different ways; "(e.g. owned, leased, or obtained pursuant to tariff, etc.)." Section 18.4 provides that each party is financially

responsible for the costs of the facilities on its side of the POI. (Complainants' post-hearing brief, p. 23)

Iowa Telecom argues that Sprint's ASR is defective because Sprint has made contradictory requests regarding the POI location. (Iowa Telecom post-hearing brief, p. 16). Iowa Telecom's interpretation of the agreement is that the physical and financial POI are the same location. Iowa Telecom states that pursuant to section 18.1, Sprint may unilaterally establish a POI at the relevant exchange boundary or Iowa Telecom and Sprint may voluntarily agree to an alternate location at the serving central office. Iowa Telecom states that either location is acceptable to it. (Iowa Telecom post-hearing brief, p. 16).

Iowa Telecom states that section 18.2 provides that each party is responsible for engineering and maintaining its network on its side of the POI. Pursuant to section 18.3, regardless of how such facilities are provisioned, each party is responsible to provide facilities to the POI and, according to section 18.4, each party shall pay the entire cost of any transport, switching, billing, testing or other facilities required on its side of any POI. (Iowa Telecom post-hearing brief, p. 17).

Complainants characterize Iowa Telecom's position as requiring that either (1) Sprint must build out a physical facility located at the Iowa Telecom exchange boundary, or (2) if Sprint establishes a physical interconnection located at an Iowa Telecom switch, then Sprint must bear 100 percent of the cost of that facility, rather than paying only for the portion on Sprint's side of the Iowa Telecom exchange boundary. (Complainants' post-hearing brief, p. 23). Sprint claims the first option is



erroneous because it ignores section 18.1 of the agreement, which provides that "Sprint may establish a POI at an Iowa Telecom switch location subject to negotiation of the terms and conditions applicable to the interconnection facility." (Complainants' post-hearing brief, p. 24).

Iowa Telecom witness Mr. Porter stated at hearing that the existing meet point facility between Iowa Telecom and Qwest Corporation (Qwest) controls the location of the meet point under the interconnection agreement. (Tr. 324-26). Under this logic, the Iowa Telecom-Qwest meet point cannot be used for the meet point interconnection between Iowa Telecom and Sprint. Complainants counter that section 18.3 of the agreement contemplates multiple ways that the facilities can be provisioned. Under section 18.1, the interconnection is treated as a meet point interconnection arrangement and the financial responsibility is shared between Iowa Telecom and Sprint. Complainants argue that when sections 18.1, 18.3, and 18.4 of the agreement are read together, it is clear that the agreement allows Sprint to provision a facility through a number of options, including leasing from another carrier, and each party will be financially responsible for the cost of the facility on its own side of the meet point arrangement. (Complainants' post-hearing brief, p. 22).

Iowa Telecom asserts Sprint cannot request the POI option most advantageous to it from a network perspective without bearing the associated cost. (Iowa Telecom post-hearing brief, p. 19). Iowa Telecom witness Mr. Porter provided three diagrams (Exhibits 501 - 503) supporting his interpretation of the meet point language. Exhibit 502 concerned the Sprint POI being located at the Rockwell City

exchange boundary. Mr. Porter's diagram shows Sprint coming into the Rockwell City exchange on an existing Qwest interconnection facility, hitting the Iowa Telecom cross-connect facility in the Rockwell City central office, and then coming back out of the central office on local network facilities to the Sprint-designated POI at the exchange boundary. The traffic then would be carried back from the exchange boundary POI to the central office and the tandem switch. (Tr. 325).

Sprint witness Ms. Luehring stated that during negotiations about the Rockwell City tandem, the existing Qwest-Iowa Telecom facility was discussed as a way for Sprint to reach the tandem. Ms. Luehring states that the fact the Qwest-Iowa Telecom meet point does not match up with the meet point in the agreement is not relevant. Ms. Luehring argues there is a facility which can be financially divided based on the language of section 18.1. (Tr. 219-21).

As illustrated in Exhibit 502, Iowa Telecom's interpretation would require the existence of facilities from the central office cross-connect out to an exchange boundary and back to the tandem switch, with this last segment requiring construction. That interpretation would add delay, expense, inefficiency in the network layout, and further disputes to the implementation. The Board finds that this is not a reasonable interpretation of the parties' agreement.

The Board finds that Complainants offer a reasonable reading of the agreement that (1) pursuant to section 18.1, Sprint may choose the location of the physical POI; (2) pursuant to section 18.3, the facilities may be provisioned in a number of different ways (e.g., owned, leased, or obtained pursuant to tariff, etc.),

such as leased Qwest interconnection facilities; and (3) pursuant to section 18.4, each party is financially responsible for its side of the POI. The Board will order Iowa Telecom to process Sprint's order for an interconnection facility according to Sprint's interpretation of section 18 of the agreement allowing for a separate physical and financial POI.

**c. Should the Board order Iowa Telecom to port numbers to Sprint for MCC customers at Sprint's request ?**

Complainants state that Local Number Portability (LNP) has become an issue, as Iowa Telecom witness Mr. Porter stated that Iowa Telecom would not port numbers for MCC customers at Sprint's request. (Complainants' post-hearing brief, pp. 13-14; Tr. 365). Complainants ask the Board to order Iowa Telecom to port numbers to Sprint for MCC customers at Sprint's request, under the terms of the Sprint-Iowa Telecom interconnection agreement. (Complainants' post-hearing brief, p. 38).

Complainants state that the Board directly ruled on this issue in the Arbitration Order, in which the Board rejected Iowa Telecom's position that Sprint could not request LNP from Iowa Telecom. The Board's decision to approve Sprint's language regarding LNP was based on 47 C.F.R. 52.23(c), which states:

Beginning January 1, 1999, all LECs must make a long-term database method for number portability available within six months after a specific request by another telecommunications carrier in areas in which that telecommunications carrier is operating or planning to operate.

The Board noted that Sprint would be a telecommunications carrier and, as such, would be able to request LNP.

Iowa Telecom witness Porter stated that the real LNP issue is authority to transfer the number to the carrier who is providing the service and that would be MCC. Mr. Porter further stated that LNP would be a "day one" issue with MCC but not with Sprint. (Tr. 426-27). The Board understands this to mean that Iowa Telecom believes this issue must be resolved before MCC can commence providing local exchange service in Iowa Telecom exchanges.

The Board does not find anything regarding the LNP issue in the present case to be different from the issue resolved by the Board in the Arbitration Order. Sprint will control the numbers, own the switch, and have the role that includes intercarrier relationships. Sprint is a telecommunications carrier as defined by FCC rules. The validity of the Sprint-MCC business plan was litigated during the arbitration proceeding. The Board ruled that Sprint's language regarding LNP be adopted. Complainants ask the Board to order Iowa Telecom to port numbers to Sprint for MCC customers at Sprint's request, under the terms of the Sprint-Iowa Telecom interconnection agreement. This action appears to be necessary for the interconnection agreement to be implemented.

Sprint witness Luehring also expressed concern with Iowa Telecom's statement that Iowa Telecom may not be able to port numbers from some Iowa Telecom exchanges based on the Board's order extending the period to implement

LNP. Ms. Luehring stated that the order Iowa Telecom relied on for this statement<sup>2</sup> also required Iowa Telecom to prioritize exchanges for LNP deployment if the exchanges have been the subject of multiple bona fide requests or where foreseeable competitive entry by wireline carriers using their own last-mile networks is seen. Ms. Luehring requests that Iowa Telecom prioritize the exchanges that Sprint has identified in its LNP bona fide request (as shown in Exhibit 101) and provide a revised implementation timeline. (Tr. 187-88). The revision to the LNP deployment timeline is a condition of the Network Improvement Plan that was approved for Iowa Telecom. Sprint has requested certain exchanges in its bona fide request and Iowa Telecom should provide a revised and accelerated implementation timeline to Sprint, as required by the Board's order in Docket No. SPU-04-8.

**d. Should the Board enjoin Iowa Telecom from refusing to exchange traffic with Sprint on the grounds that the telephone numbers used by MCC customers were obtained by Sprint?**

According to Complainants, Iowa Telecom's position is that Sprint is not entitled to obtain numbering resources for use by MCC customers. (Complainants' post-hearing brief, p. 15). Complainants state that because MCC does not need its own numbering resources, there is no reason for Iowa Telecom to block traffic directed to or from a Sprint-assigned number. Complainants argue that the "Order in Lieu of Certificate" issued to Sprint confers authority on Sprint to obtain numbers to serve Sprint's wholesale business. (Complainants' post-hearing brief, p. 30).

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<sup>2</sup> In Re: Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, Docket No. SPU-04-8, Final Decision and Order, issued September 17, 2004.

In support of its argument that numbers used by Sprint to provide service for MCC customers are unlawful, Iowa Telecom cites the Central Office Code Assignment Guide (COCAG) developed by the Alliance for Telecommunications Industry Solutions (ATIS). Iowa Telecom states that according to the COCAG, Sprint may use the numbers it has acquired in Iowa Telecom exchanges only for its own retail operations or for resellers and that, because Sprint does not have a certificate, there may not be a need to route any traffic to Sprint's NPA/NXXs. Iowa Telecom argues that MCC must obtain its own Operating Company Number (OCN) and number resources as a facility-based CLEC, according to the requirements in the COCAG.

Complainants argue that the COCAG offers guidelines, not law; that the "Order In Lieu of Certificate" is a governmental principle that supersedes the COCAG; and that various provisions of the COCAG actually support Sprint's use of numbers to provide services to MCC.

The Board was aware of the proposed Sprint-MCC business arrangement when it issued the "Order in Lieu of Certificate" and canceled Sprint's retail intrastate service tariff. In its order issued March 3, 2006, the Board acknowledged that Sprint needed numbering resources for its wholesale business and that Sprint is a telecommunications provider as defined in federal law. Support for the Board's order is found in 47 CFR § 52.15(f)(1)(v), which states:

**Intermediate numbers.** Intermediate numbers are numbers that are made available for use by another telecommunications carrier or non-carrier entity for the

purpose of providing telecommunications service to an end user or customer. Numbers ported for the purpose of transferring an established customer's service to another service provider shall not be classified as intermediate numbers.

Sprint argues that its numbers are not sold, brokered, bartered, or leased, but are associated with services it is providing to customers such as MCC. Sprint argues that its use of numbers is similar to carriers that purchase a primary rate interface (PRI) that includes a number used by the purchaser but assigned to the LEC providing the PRI. Sprint also points out that Voice Over Internet Protocol (VoIP) providers commonly use numbers assigned to other carriers by purchasing appropriate services from those carriers. (Tr. 375).

The Board finds that, taken together, the COCAG guidelines cited by the parties appear to provide sufficient flexibility to allow for the Sprint-MCC business arrangement. The Board finds COCAG Paragraph 1.0 to be particularly relevant in this respect. That paragraph states:

While these guidelines were developed at the direction of the FCC, they do not supersede controlling appropriate NANP Area governmental or regulatory principles, guidelines, and requirements.

Thus, the COCAG contemplates that a state may do as the Board did with its order in lieu of certificate, which was to allow a telecommunications carrier that is not a certificated local exchange carrier access to numbering resources in order to enhance competitive alternatives for end users.

Complainants ask the Board to enjoin Iowa Telecom from refusing to exchange traffic with Sprint on the grounds that the telephone numbers used by MCC customers were obtained by Sprint. As it appears that Iowa Telecom will not exchange traffic without such an order, the Board will direct Iowa Telecom to exchange traffic with Sprint, regardless of the origin of the telephone numbers used by MCC customers.

2. **Should the Board give notice to Iowa Telecom that failure to comply with a Board order directing it to exchange traffic pursuant to the interconnection agreement between Sprint and Iowa Telecom may result in civil penalties pursuant to Iowa Code § 476.51?**

Complainants argue that the Board should give notice to Iowa Telecom pursuant to Iowa Code § 476.51 that any further delays in effectuating the Board's order will result in civil penalties. Iowa Code § 476.51 provides:

1. A public utility which, after written notice by the board of a specific violation, violates the same provision of this chapter, the same rule adopted by the board, or the same provision of order lawfully issued by the board, is subject to a civil penalty, which may be levied by the board, of not less than one hundred dollars nor more than two thousand five hundred dollars per violation.

2. A public utility which willfully, after written notice by the board of a specific violation, violates the same provision of this chapter, the same rule adopted by the board, or the same provision of an order lawfully issued by the board, is subject to a civil penalty, which may be levied by the board, of not less than one thousand dollars nor more than ten thousand dollars per violation. For the purposes of this section, "willful" means knowing and deliberate, with a specific intent to violate.



Complainants assert that Iowa Telecom's behavior in this matter has been egregious and far beyond what has in the past resulted in civil penalties from the Board.

The record before the Board in this case establishes that Iowa Telecom has delayed the implementation of the Board-approved interconnection agreement by refusing to process Sprint's ASRs and exchange traffic for reasons that the Board finds to be specious, and therefore is in violation of the Board's Arbitration Order. The interconnection agreement between Sprint and Iowa Telecom was approved pursuant to Board rules on May 24, 2006. Iowa Telecom's obstructionist behavior has caused significant expense for Complainants and has impaired their ability to provide consumers with competitive local exchange service offerings. Any further delays in exchanging traffic are prohibited by this order and may form the basis for civil penalties pursuant to Iowa Code § 476.51. The Board will give notice that any further delay by Iowa Telecom in processing Sprint's ASRs and in exchanging traffic may be considered a violation of this order and may subject Iowa Telecom to civil penalties pursuant to Iowa Code § 476.51.

**3. Should the Board determine whether the bona fide request from Iowa Telecom to MCC is valid?**

Complainants ask the Board to order that Iowa Telecom's bona fide request (BFR) to MCC is invalid and clarify that the Sprint-Iowa Telecom agreement is in no way dependent on a separate Iowa Telecom-MCC agreement. The validity of an Iowa Telecom BFR to MCC is not an issue properly before the Board in this

proceeding. Any determination of the validity of a BFR from Iowa Telecom to MCC must be made in a proceeding to consider an arbitration petition brought before the Board pursuant to appropriate federal statutes and regulations. The Board will deny Complainants' request to rule on the validity of the BFR from Iowa Telecom to MCC.

Iowa Telecom witness Porter testified at hearing that Iowa Telecom considers its letter dated May 24, 2006, to MCC to be a valid BFR and that the Board could expect to receive an arbitration petition during the 135- to 160-day window provided by 47 U.S.C. § 252(b)(1). The Board will await that filing to determine whether Iowa Telecom's May 24, 2006, letter is a valid BFR under 47 U.S.C. § 252, if such a determination is necessary. Meanwhile, the parties should implement the existing Sprint-Iowa Telecom agreement without delay.

On a related issue, Iowa Telecom also argues that a letter of authorization is necessary from MCC as MCC will be the carrier that communicates with the customer and will be the party with whom Iowa Telecom will do number porting. Iowa Telecom witness Porter testified that Iowa Telecom must have a letter of agency with the service provider who provides the end user service. (Tr. 381). This letter would address potential issues of customer authorization and slamming under Iowa Code § 476.103 and the associated rules. The Board rejects this interpretation of the statute and the Board's rules. In this context, MCC will bear any risk of failing to comply with Board rules prohibiting unauthorized changes in telecommunications service, not Iowa Telecom. The Board concludes that Iowa Telecom's position that MCC must obtain letters of agency from consumers is without merit.

**4. Should the Board extend the term of the approved interconnection agreement between Sprint and Iowa Telecom by declaring the first day of the term to be the date of the Board's order in this contested case?**

Complainants argue that in order to avoid rewarding Iowa Telecom for its improper delay, the Board should extend the term of the approved interconnection agreement between Sprint and Iowa Telecom by declaring the first day of the term to be the date of the Board's order in this docket. The Board cannot give this type of relief in the context of interpreting an interconnection agreement. Generally, a state commission's only authority under 47 U.S.C. § 252 is its authority "to approve new arbitrated interconnection agreements and to interpret existing ones according to their own terms." *Pac. Bell v. Pac-West Telecomm, Inc.*, 325 F.3d 1114 (9<sup>th</sup> Cir. 2003). Changing the first day of the term of the negotiated interconnection agreement would be changing a term of an agreement that has been previously approved, and the Board is precluded from doing so in these circumstances. The Board will deny Complainants' request to change the first day of the term of the parties' agreement.

**5. Allocation of costs.**

Finally, the Board will consider the matter of allocating the Board's costs associated with this proceeding. Iowa Code § 476.10 gives the Board authority to allocate and charge its expenses attributable to a specific proceeding to (a) the person bringing the proceeding before the Board or (b) to persons participating in matters before the Board. When deciding to assess expenses to the parties in a

docket, the Board may consider the following factors in determining the appropriate assessment levels for each party:

1. The financial resources of the party;
2. The effect that assessment may have on participation by intervenors;
3. The nature of the proceeding; and
4. The contribution of the party's participation to the public interest.

These factors give the Board substantial discretion in assessing costs among the parties. The Board reads these factors, particularly the third factor, to allow the Board to consider the type of proceeding involved and whether the proceeding was (or should have been) necessary or in the public interest, among other factors. The Board observes that, in bringing this action, Sprint sought to avail itself of rights under a Board-approved interconnection agreement and that any delay in implementing that agreement has accrued entirely to Iowa Telecom's benefit. The Board concludes Iowa Telecom unilaterally made this proceeding necessary and consequently will allocate 100 percent of the Board's costs to Iowa Telecom.

Under Iowa Code § 476.10, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) decides the appropriate allocation of its costs. The Board encourages Consumer Advocate to consider the Board's allocation when it decides its own allocation.

## **ORDERING CLAUSES**

### **IT IS THEREFORE ORDERED:**

1. Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, shall exchange traffic with Sprint Communications Company L.P. for customers of MCC

Telephony of Iowa, Inc., according to the interconnection agreement between Sprint and Iowa Telecom deemed approved on May 24, 2006, and according to the following requirements:

a. Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, shall process the Access Service Requests made by Sprint Communications Company L.P. immediately in accordance with the Local Exchange Routing Guide entries provided by Sprint as described in this order.

b. Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, shall process the orders for interconnection facilities according to Sprint Communications Company L.P.'s interpretation of the parties' agreement, as described in the body of this order.

c. Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, shall port numbers to Sprint Communications Company L.P. for customers of MCC Telephony of Iowa, Inc., at Sprint's request, as described in this order.

d. Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, shall exchange traffic with Sprint Communications Company L.P. regardless of the origin of the telephone numbers used by customers of MCC Telephony of Iowa, Inc.

2. The Board notifies Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, that failure to comply with this Board order directing it to exchange traffic pursuant to the interconnection agreement between Sprint Communications

Company L.P. and Iowa Telecom may result in civil penalties pursuant to Iowa Code § 476.51.

3. The request by Sprint Communications Company L.P. and MCC Telephony of Iowa, Inc., that the Board determine the validity of a bona fide request for negotiation made by Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom, to MCC Telephony of Iowa, Inc., is denied.

4. The request by Sprint Communications Company L.P. and MCC Telephony of Iowa, Inc., that the Board extend the term of the approved interconnection agreement between Sprint and Iowa Telecom is denied.

5. All costs of the Iowa Utilities Board associated with this proceeding are allocated to Iowa Telecommunications Services, Inc., d/b/a Iowa Telecom.

**UTILITIES BOARD**

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper  
Executive Secretary

/s/ Curtis W. Stamp

Dated at Des Moines, Iowa, this 9<sup>th</sup> day of November, 2006.



# Iowa Telecommunications Services, Inc.

**IWA – NYSE**

*Hold*

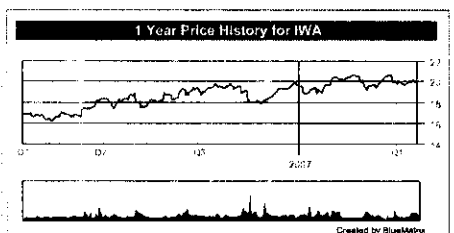
*Telecom Services*

April 23, 2007

Changes	From (Previous)	To (Current)
Rating	--	Hold
FY07E EPS (Net)	--	\$0.79
FY08E EPS (Net)	--	\$0.73
<b>Stock Data</b>		
Price (04/20/07):		\$20.26
52-Week Range:		\$22 – \$17
Market Cap.(\$mm):		\$652.4
Shr.O/S-Diluted (mm):		32.2
Enterprise Val. (\$mm):		\$1,128.2
Avg Daily Vol (3 Mo):		240,622
LT Debt/Total Cap.:		44.5%
Net Cash/Share:		NA
Dividend (\$):		\$1.62
Yield (%):		8.0%
Book Value/Share:		NA
S&P Index:		1,484.35

EPS (Net)	2006A	2007E	2008E
1Q	\$0.38A	\$0.21	NE
2Q	0.33A	0.20	NE
3Q	0.25A	0.18	NE
4Q	0.11A	0.20	NE
FY Dec	\$1.07A	\$0.79	\$0.73
P/E	18.9x	25.6x	27.8x

<b>Revenue (Net)</b>	\$234.1M	\$236.1M	\$233.8M
<b>EV/Revenue</b>	4.8x	4.8x	4.8x



## A Look at Iowa Telecom's USF Forbearance Petition

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Company Update

- Iowa Telecom is awaiting a decision by the FCC (no later than August 6th) regarding a forbearance petition it filed requesting eligibility to receive a potential \$22.2 million annually in federal Universal Service support.
- While the issues surrounding the petition are complicated, and approval is far from certain, we believe it more likely than not, that the FCC will grant Iowa Telecom at least some partial relief on the forbearance petition, and allow the company to recoup some additional regulatory support, up to the full \$22.2 million.
- As there is no real downside from the FCC denying the petition (versus our estimates for Iowa Telecom), we note the full \$22.2 million equates to an estimated \$0.69 per fully-diluted share, and would represent a 17.5% increase to our 2007 EBITDA forecast. As Iowa Telecom is currently enjoying the benefit of a tax shield due to the company's NOL balance, any additional support received would drop down to the company's free cash flow line, net of any additional capital expenditures budgeted as a result of the additional relief.
- While a win for the company on the forbearance petition would likely drive a higher equity valuation, given the improved financial performance of the company, we believe most investors continue to value Iowa Telecom's equity largely on the basis of the company's dividend yield, and we note the political challenges that the company would likely face by dramatically increasing its dividend payout shortly after a regulatory win premised on the company being able to increase investment in telecommunications plant in rural areas.

***Iowa's Forbearance Petition***

Last May, Iowa Telecom filed a forbearance petition before the Federal Communications Commission (FCC), asking that the company be made eligible to receive "non-rural" high-cost federal universal service fund (USF) support, based on a forward-looking cost methodology. This methodology has yet to be approved by the FCC on an industrywide basis for rural carriers.

Iowa Telecom is currently regulated as a "price-cap" carrier at the federal (and state) level, rather than a "rate-of-return" carrier, as the overwhelming majority of rural carriers are. This regulatory distinction has more to do with historical ownership than anything else, as Iowa Telecom was formed by the acquisition of properties from GTE/Verizon, which have historically been price-cap regulated.

Iowa Telecom thus does not receive the benefit afforded most rural carriers of receiving regulatory support based on the company's regulatory cost structure. As a carrier under incentive-based price caps, its investment in maintaining and upgrading telecommunications plant is not guaranteed a return through regulatory support mechanisms, as most rural carriers receive. According to Iowa Telecom, this has put the company in the unenviable position of either raising retail rates to rural consumers, or forgoing investment in its telecommunications plant.

Iowa Telecom's argument before the FCC centers on the unique regulatory distinction the company holds as an entirely rural, price-cap only company. Rural telephone companies receive support from the universal service high-cost fund based on a historical, embedded cost (which disadvantages Iowa Telecom due to its acquisition of lines from GTE/Verizon, which had relatively low levels of investment in the properties). Non-rural carriers receive a different regulatory treatment for high-cost universal service based on a forward-looking economic cost, which estimates future investment and allows cost recoveries based on those assumptions. As Iowa Telecom is also a price-cap carrier, the current regulatory regime does not allow for recovery of incremental investment, except in very rare instances. Thus, Iowa Telecom argues that it is facing a unique and unfair regulatory environment at present, which is hampering its ability to invest for the benefit of its rural customer base, and it wants the FCC to shift it to the non-rural USF mechanism by waiving or forbearing from applying its rules.

***Comments on Iowa Telecom's Petition***

Several parties have filed comments with the FCC opposing Iowa Telecom's petition. Among them, the National Association of State Utility Consumer Advocates, which argues that Iowa Telecom is simply trying to game the regulatory system by choosing which mechanisms it wants to keep and which ones it wants to change. NASUCA also questions whether Iowa Telecom would even qualify for additional USF support under the non-rural mechanism, even if the petition is granted; however, it's difficult to believe Iowa Telecom would have gone through the trouble of seeking eligibility for the fund if it did not have the data to back up its claims that it would qualify for support. Sprint Nextel also opposes Iowa's request, arguing that granting the petition would encourage other rural carriers to petition for extra non-rural high-cost support as well, placing increased pressure on USF systems that are already under undue strain. (We note Sprint Nextel's close relationship with Mediacom, Iowa Telecom's primary competitor, and an ongoing interconnection dispute between the companies). CTIA (the wireless industry trade group) also opposes the petition, arguing that the issue should be dealt with within the context of larger, industrywide reforms. AT&T also argued for a more comprehensive reform of the regulatory regime for rural carriers as the better approach.

In its reply comments, Iowa Telecom had various responses to the opponents, but it noted that much of the criticism was aimed more at the forbearance/waiver vehicle Iowa Telecom was using than at its arguments that its USF support should be based on forward-looking costs (which the FCC and many parties believe are more appropriate). "Instead, they prefer that Iowa Telecom's desired change occur as part of a different proceeding, or through adoption of a preferred comprehensive reform package," said Iowa Telecom. "This is truly form over substance." Several parties supported Iowa's petition as well — the Iowa Utilities Board, the Independent Telephone and Telecommunications Alliance (ITTA), and Embarras.

***Possible Financial Impact to Iowa Telecom***

Iowa Telecom's filings before the FCC suggest that if the FCC were to grant its request, the company would receive approximately \$22.2 million annually under the non-rural mechanism (the forward-looking cost methodology). Assuming no other significant changes to the company's financial structure or NOL tax shields, that would equate to a 17.5% increase to our 2007E full-year EBITDA forecast, if the full \$22.2 million would be recovered. The \$22.2 million also equates to an estimated \$0.69 per fully-diluted share.

From an equity standpoint, such a win for Iowa Telecom would create an interesting dilemma for investors. On the one hand, obviously such a significant increase to the company's EBITDA would presumably lead to a higher valuation.



However, we have long viewed Iowa Telecom's valuation based on the company's substantial dividend yield (currently at 8.0%). But, one can clearly foresee the company being in a difficult position if it tried to substantially increase the company's dividend (even to maintain the company's long-term goal of an approximate 70% payout ratio), as a result of a regulatory win, when the company's argument to receive these funds is largely premised on future investments in telecommunications plant and services.

***Timing of FCC Decision and Possible Outcomes***

As it approached its statutory one-year initial deadline, the FCC granted itself a 90-day extension to issue a final ruling on this proceeding, thus creating an August 6 deadline. The 90-day extension in itself means little to nothing, in our view, in the forecasting of the final FCC decision. The FCC routinely grants itself 90-day extensions on forbearance decisions (it can only give itself one such extension).

Trying to predict the outcome of such technical regulatory debates often proves difficult, if not impossible, but our best guess today would be that Iowa Telecom likely will receive approval from the Commission on this issue. We note that Iowa Telecom in recent months has reported making various confidential submissions of cost-model data to the FCC, often in response to agency staff. Although that doesn't guarantee the petition will be approved, we believe it is a hopeful sign for the company, as it suggests its request is being treated seriously and may have gained at least some traction with the wireline bureau and, by extension, FCC Chairman Kevin Martin. We nevertheless caution that the petition will presumably need three FCC commissioner votes to be approved, and three-and-a-half months is a long time to withstand the various political winds in Washington, which have intensified recently as regulators look to reform the USF mechanisms. We suspect the Iowa Telecom decision will go down to the wire.

We believe the FCC will likely either grant or deny the petition in full, but the possibility does exist of some middle ground being drawn to satisfy the various political interests involved, which would allow Iowa Telecom to receive some level of additional support less than the full \$22.2 million annually. We note that Iowa Telecom has said that even if it receives the full \$22.2 million, the non-rural USF fund will grow by only \$7.7 million because of accompanying reductions to other carrier's support mechanisms. Therefore, if Iowa Telecom receives less, it will mitigate the pain to others.

Consequently, while we believe that a regulatory victory would positively impact Iowa Telecom's equity valuation, we question the extent to which valuation multiples would increase, given the possibility of a compromise as well as our view that Iowa Telecom's valuation is most directly tied to its dividend yield, and the political difficulties that Iowa's management would likely face if it dramatically increased its dividend shortly after a regulatory victory.

***Company Description***

Iowa Telecommunications Services (Iowa Telecom) is a telecommunications service provider that offers local telephone, long distance, Internet, broadband and network access services to business and residential customers. Today, the company serves over 435 communities and employs over 600 people throughout the state of Iowa.

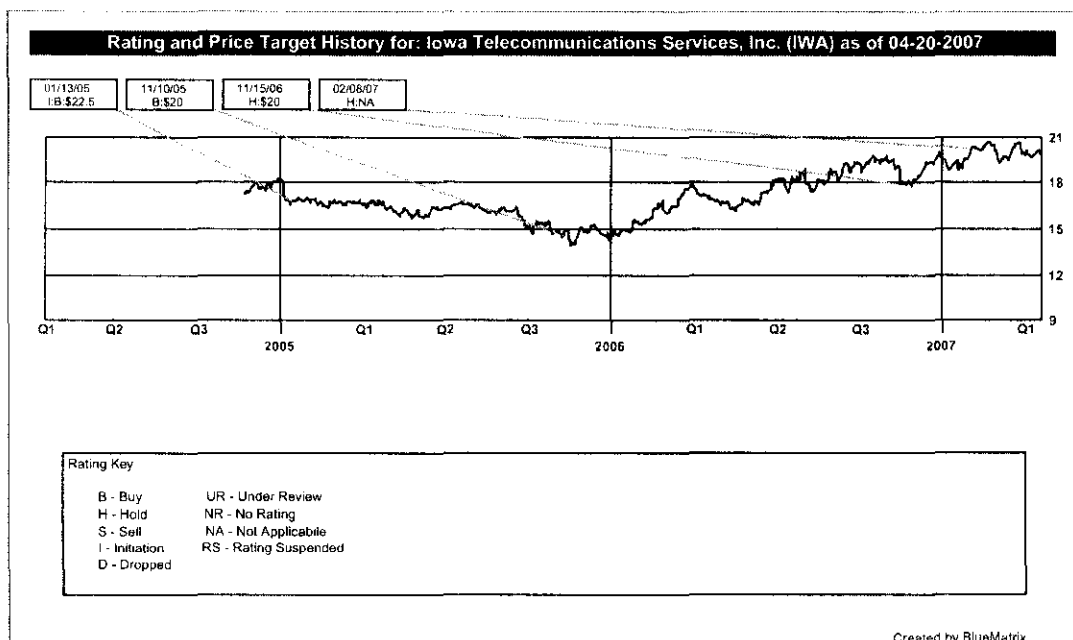
### Important Disclosures and Certifications

I, Christopher King, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Christopher King, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

I, Blair Levin, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Blair Levin, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

I, Rebecca Arbogast, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Rebecca Arbogast, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

I, David Kaut, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, David Kaut, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.



For a price chart with our ratings and target price changes for IWA go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=IWA>

The rating and price target history for Iowa Telecommunications Services, Inc. and its securities prior to December 1, 2005 on the above price chart reflects the research analyst's views while employed at the prior owner of part of the Stifel Nicolaus Capital Markets business.

Stifel, Nicolaus & Company, Inc. or an affiliate expects to receive or intends to seek compensation for investment banking services from Iowa Telecommunications Services, Inc. in the next 3 months.

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